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SOUTH AMERICA AND THE WAR

Unparalleled trade conditions arising from war-time demands in Europe might well create the impression that neutral countries everywhere have been growing rich at the expense of the belligerents. The United States, for example, with its war orders, made a record in 1916 far above what any other country ever has reached, with a total foreign trade of about \$7,800,000,000; or a billion dollars ahead of the previous high figure set by British trade in 1913. Among other neutrals profiting in a similar way the Scandinavian countries are perhaps the most conspicuous. Thus the heavy traffic handled by Norway, along with high rates, has given the shipping interests of that country great profits. Not a few of the companies are reported to be paying dividends of 40 and 50 per cent, while in some cases earnings of ships have repaid the purchase price in the first two or three voyages.

A different condition, however, has prevailed in South America, which singularly enough is the only neutral continent left.¹ When the war began, several of the republics were wholly unprepared to meet the resulting upset in commercial and financial relations. More than that, they all were in no position to profit quickly from war-time trade; and, as a result, these differences between South America and neutrals in other parts of the world made the war well-nigh a calamity to most of the continent.

In general, it may be said that all sections were suddenly confronted by acute crises, as indicated by the declaration of moratoria both on domestic and on international obligations. From the depth of the depression recovery has been slow and in most sections is not yet complete, owing to the many ways in which the war touched their interests adversely.

One of the first effects of the war was the interruption of oceanic communication between South American and European ports because of the internment of German merchantmen, the operations of commerce-raiders, the unusual demands on shipping created by

¹ This was written before Brazil severed diplomatic relations with Germany.

governmental requisitioning of vessels, and the greater advantages offered for engaging in traffic in other parts of the world. It has been estimated, for instance, that within the first year of the war about one-fourth of the world's merchant shipping was out of the market for handling peaceful traffic. This decrease apparently bore somewhat more heavily on South American commerce than on traffic originating closer to the European markets, with the result that cargoes were far more numerous than were ships to transport them.

Shortage of ships and the war risks which had to be allowed for promptly sent freight rates soaring. Almost every quotation on shipments from South America to outside points was quickly doubled, and in not a few cases the increase was much greater. For instance, the rate on Argentine wheat to European destinations ordinarily does not exceed a maximum of ten dollars per ton, while in the first year of the war the quotations went as high as forty dollars per ton. Thus the South American shipper was at a great disadvantage as compared with competitors nearer to the war centers. Not a few commodities which were waiting for export could not be moved and there was little encouragement to continue production. Obviously stagnation of industry was inevitable.

The Chilean nitrate industry, which prior to the outbreak of the war had been in a decidedly flourishing condition, furnishes a striking case of this sort. In July, 1914, there were upward of one hundred and thirty nitrate plants in operation; the annual output was nearly sixty millions of quintals; and the freight rate to Europe was approximately twenty to thirty shillings. These conditions, with the price averaging above eight pesos, made profits very good. Promptly after the war began, however, freight rates advanced to eighty and one hundred shillings, ships not infrequently were unobtainable at any price, and accumulation of stocks of nitrate mounted up rapidly. Prices dropped to less than six pesos; plants were shut down, so that in the early part of 1915 only thirty-six were at work; and the shipments for the first year of the war were barely more than half the amount for the preceding twelve months.

Another result of the upset of shipping conditions was the serious curtailing of the fuel supplies. None of the important communities is able to supply its own needs for fuel; even Chile, the

most prominent producer on the continent, is obliged to import from one to two million tons of coal annually to supplement its domestic output. With ships fewer, rates almost prohibitive, and tendencies in Europe to restrict the outward movement of coal, supplies fell far short of requirements. Argentina, for instance, the chief coal market on the continent, normally buys about four million tons a year, but in 1915 the total imports were cut to about two and a half million tons. With twenty thousand miles of railroads to operate, and urgent need of coal for industrial and other purposes, the inadequacy of this amount made the situation unpleasant. Coal prices were reported as high as fifty dollars a ton in Buenos Aires, which meant in effect that coal could not be had.

As substitutes had to be found, the most obvious course was to use wood, and so the railroads, especially in Argentina and in Chile, turned largely to that fuel for the operation of both freight and passenger trains. Considering the facts that Argentina normally is a heavy importer of lumber and that before the war began Chile was actively engaged in stimulating tree-planting to restore depleted resources, these new and decidedly uneconomical uses of their small forest supplies show the desperate straits the countries were in. Of course some relief gradually was found by increasing coal imports from the United States, but, while the relative increase from that quarter has been very conspicuous, the actual amount has been small because of the lack of cheap cargo space available for moving heavy coal tonnage. It might be noted, however, that these circumstances made an opportunity for introducing United States coal into various South American markets where previously it was regarded as unfit for their needs.

The war-time activities soon closed some of the European markets to South American commodities and shut off sources of goods on which the continent long had relied. These effects naturally were most striking in the case of the trade with the central European empires. For instance, in 1913 the total exports from South America to Germany had amounted to more than \$160,000,000; in 1915 the total was but little over \$180,000. Imports from Germany in the year before the war reached almost \$190,000,000, while in 1915 they were almost nothing.

Lines of trade like coffee and cacao, so important to the tropical republics, like Brazil and Ecuador, find some of their chief markets in the central empires and consequently were most adversely affected. Thus the Brazilian coffee-growers ordinarily send at least a third of their product to Germany and Austria-Hungary. All this outlet was cut off by the blockading of the central empires, with no alternative outlet to be found. In a way, most of Brazil depends on coffee to create foreign exchange—that is, coffee establishes credits to pay for imports and to meet interest payments on foreign obligations. When these credits shrink, there is obviously a decrease in the ability of the country to buy or to meet obligations, and the pinch of both these misfortunes was felt throughout Brazil. With more coffee produced than the markets required, prices were lower; and in order to ward off disaster to its main industry, Brazil was forced to revive the valorization scheme, appropriating some \$37,000,000 (from its paper issues) for the purchase of surplus stocks.

Shutting off sources of goods which long had been relied on was much less serious a matter, for economy was necessary, and few commodities previously bought from the isolated countries were of such a sort that wares from other sources could not readily be substituted for them. In general, therefore, that aspect of the situation involved nothing but a readjustment of buying relations, a very important factor in increasing the demand for, and especially the variety of, goods from the United States.

As a general thing, South American communities when in need of money have borrowed from Europe, and vast sums were advanced freely by British, French, and German financiers to promote the internal development of these rich regions. As a result of the habitual practice of financing against the future, the war crisis found almost all the republics heavily loaded with foreign obligations, and some of them in urgent need of new loans. Inability to get more capital from the customary sources for further mortgaging of the future forced retrenchment and a seeking for funds elsewhere. Some plans, nearly completed, for big loans, as the Brazilian negotiations for \$100,000,000 from London, had to be abandoned and expansion stopped. Railroad construction, which was greatly

needed, was at a standstill, and building operations ceased. Subsequently some loans were placed in the United States, but these met only the most pressing needs. In some ways this shutting off of the stream of gold which long had flowed toward South America was the hardest blow of all.

Immigration, a vital factor in the continued progress of the more important sections, declined rapidly after the war began, and within a year it almost ceased. Before the war Argentina received a majority of the immigrants to South America, with upward of 300,000 arrivals to its credit annually. In 1915 the number was cut to 46,000. Departures, which in normal years had amounted perhaps to a third of the number of arrivals, exceeded the number of arrivals after the war began. Thus, from August, 1914, to the end of 1915 there was a net loss of about 150,000 men, the significance of which may be seen from the fact that it represents about 2 per cent of the total population. Brazil was confronted by a similar situation, although the case there was not quite so conspicuous because of the normally smaller movement of immigrants and their lesser part in the ordinary routine of the country.

Argentina immediately was handicapped by a dearth of farm labor, because its crop expansion has exceeded the limit which the permanent population can handle satisfactorily. For years there has been a great seasonal movement of Italians and Spanish to and from Argentina, according to the varying demands for agricultural laborers. Thus in the period 1911 to 1913 these migratory workers numbered 120 to 150 thousand annually, the incoming horde rising to its maximum prior to the harvest—that is, from October through December—with the outward movement largest from April to August, when harvesting is over and much of the preparation for the next crop has been done. When the expected laborers did not appear, there was a grave question as to how to handle the wheat and corn crops. The size of the problem is indicated by the proposal to meet the emergency by turning the army into harvest hands.

Naturally the conditions already noted had a most adverse effect on foreign trade. Lack of shipping, excessive freight rates, shortage of fuel or very high price of fuel for railroad operation,

closure of important markets for staple products, and insufficient labor to carry on some of the industries, all combined to cut down exports. At the same time the crisis in domestic finances and the problem of meeting obligations, rapidly rising war-time prices for imported commodities, and difficulties of securing wares at any price similarly scaled down imports. In fact, the shrinkage of trade in all the republics was unexpectedly large, especially with regard to the decrease in imports, and may be taken as the best general measure of the extent of the depression. The total imports to South America in 1913, for example, amounted to about \$1,020,000,000. For the calendar year 1915 they reached only \$525,000,000, almost a 50 per cent decrease. In Bolivia and Paraguay the shrinkage was about 65 per cent; in Brazil, Chile, and Peru it was more than 50 per cent; while in Uruguay, Venezuela, and Argentina it ranged between 30 and 40 per cent. Such extraordinary declines in imports can only mean that meeting current obligations called for strenuous efforts and sharp retrenchment in at least five of the republics.

Exports did not shrink much after the first few months of the war, for, although the volume in various cases was less, that was offset by the prevalence of higher prices. Thus total exports from South America in 1913 had been about \$1,160,000,000, whereas in 1915 the figure was about \$15,000,000 higher, an increase actually and relatively so small, however, that one might say that the export trade in 1915 had hardly recovered its former level. In fact, the values of exports by countries show five—Brazil, Chile, Colombia, Ecuador, and Venezuela—at or below the 1913 figures; while the favorable showing for the whole continent was due entirely to substantial gains (in 1915) by Argentina, Peru, and Uruguay, with their foodstuffs, animal products, and munitions-making metals as staple exports. Both Brazil and Chile, for example, were about 20 per cent below the 1913 level. Because of curtailment of buying, while sales held up fairly well, there has been a tremendous piling up of trade balances in favor of the more important republics, as shown by the accompanying table (I). Where in 1913 they together enjoyed an excess of only \$130,000,000 worth of exports over imports, Argentina alone more than doubled that figure in 1915, and the

balance for the continent was about \$650,000,000. This fivefold increase in the favorable trade balance, together with the fact that it has been shared by nearly every republic, has been one of the few encouraging aspects of the situation.

TABLE I
TRADE BALANCES

	Millions of Dollars	
	1913	1915
Argentina.....	61	321
Brazil.....	-11	111
Chile.....	24	62
Colombia.....	6	11
Peru.....	15	53
Uruguay.....	15	40
Venezuela.....	11	10

Last and probably most vital of all the troubles precipitated by the war comes the group of financial problems. Government revenues were cut in two by the decline in commerce. Most of the South American republics depend on import duties as the chief source of revenue. With import values shrinking by 30-60 per cent, revenues therefrom dropped proportionately, and the various governments found themselves with insufficient funds to meet current obligations. Whereas Argentine revenues from import duties in the first quarter of 1914 had amounted to about \$22,000,000, they barely reached \$11,000,000 for the corresponding period in 1915. Brazil, too, found its customary sources of revenue so seriously impaired that the government was unable to cut down expenses to the level of its income. Naturally, therefore, it was unable to meet its obligations, both at home and abroad. Fortunately an agreement with the Rothschilds was completed (1914) by which the interest on most of the foreign debt was funded for three years, and by this arrangement the country was saved from forfeiting interest payments. At home, however, the situation was worse, for it was estimated in the latter part of 1915 that the government was owing something like \$75,000,000 to prominent business houses of the country and did not have the money to pay these

bills. Payment was offered in the form of treasury notes, but acceptance of the offer involved a heavy burden or actual loss for the merchants because payments were made on the basis of the face value of the notes, whereas the notes could not be sold for more than 75 per cent of their face value.

Paraguay and Chile experienced similar troubles. The former was unable to meet its interest payments as they fell due, while Chile was badly crippled financially because, in addition to shrinkage of imports and duties therefrom, there was a sharp decrease in the nitrate and iodine traffic, the export duties on which long have been a very important source of revenue. Thus in 1913 and earlier years receipts from that source had been about \$30,000,000, but during the first year of the war the amount was only \$18,000,000. For countries which have been passing through periods of expansion, with heavy debts, small reserves of gold, and large amounts of uncovered paper, such depletions of current income fall very little short of financial disaster. It is easy to understand, therefore, the reports of proposed upward tariff revision now coming from many quarters where previously the wisdom of lower duties was frankly admitted.

The demand for gold payments on foreign indebtedness (interest on loans and for imports) still further complicated the money problem, which was promptly reflected in two ways: (1) great new issues of paper money (250,000,000 milreis in Brazil), aimed to help out the situation internally; and (2) the depreciation of currency. In Paraguay, for instance, the premium on gold was reported to be 3,000 per cent. The Chilean peso was worth 25 per cent less than normally, and in Brazil the exchange value of the milreis fell to about twenty cents, or a little less than two-thirds its normal value. One effect of this depreciated currency on the general industrial situation may be illustrated by the case of rubber shipments from the Amazon region. In the first five months of 1914 the exports amounted to 18,200 tons, and in the corresponding period of 1915 they were 16,200 tons. In the latter case the domestic price (quoted in currency) was higher, but, since the crop is sold abroad, the credits in exchange were about \$20,000,000 for the 1914 shipments and \$15,000,000 for the 1915 shipments. Depreciated currency meant higher domestic prices; hence there was a tendency

toward less buying, all business was slack and, with the other difficulties involved, helped to precipitate many commercial failures among the smaller and weaker firms.

Taking it all in all, these effects of the war, felt in varying degree by all parts of the continent, revealed the inherent weaknesses of the different sections and their previous conditions of development. Some of these weaknesses are due to geographic conditions, especially to character of resources; some of them are political; but most of them are economic, arising from the general tendency to follow the easiest line and build on the basis of one or two staple products rather than to utilize all the possibilities at their disposal. A fair sample may be found in the Brazilian overspecialization in the production of coffee and rubber, while supplies of many products which might have increased the export list had to be bought from the outside. Chile, with its singular dependence on the nitrate industry, Bolivia and its tin trade, Uruguay, with its one-sidedness in pastoral interests, and others show the same failure to develop strength in varied lines of production. Few indeed were the quarters where really serious thought had been given to the idea that the country with many interests is best able to weather a storm. South America has been too prosperous to take careful account of stock.

Continued existence on the old basis now became impossible; to wait for the end of the war in order to re-establish previous conditions was out of the question, because of the absolute certainty that peace would find the European nations unable to resume relations with South America exactly as before. Impelled by urgent need and the full knowledge that the future must be different, the more progressive communities set to work as soon as the first severe shocks were over to find remedies for their difficulties. As a result, marked improvements have been made during recent months.

In some of the republics, notably Chile, Brazil, and Argentina, much encouragement has been given to new steamship lines. Obviously, with little capital and few shipyards, not much material progress in that direction could be made in a short time; but with attention called in this way to the desirability of more independence in shipping facilities, the prospects are favorable for substantial results in time.

The pinch of coal prices promptly brought out a most serious weakness in the industrial development and awakened on all sides great interest in fuel-producing possibilities at home. In Brazil search for new coal supplies was instituted and redoubled efforts were made to utilize the coals of Paraná and Santa Catharina. Already enough has been done to locate one new possible supply and to demonstrate the feasibility of using some of the Paraná coals for general purposes, especially after they are put through a briquetting process similar to processes employed in Germany. Argentina likewise has pushed the exploitation of the petroleum fields in Patagonia, with such encouraging results that the Rivadavia field seems likely to become a large producer. Whereas a short time ago it was quite incapable of meeting the domestic requirements, it now gives promise of supplying enough for the local market and also a surplus for shipment to other South American localities. Good coal deposits, too, are reported from this republic, long held to be coalless. But, unfortunately for the immediate needs of the country, the fields lie in the Andes of Neuquen, about three hundred miles from the nearest railroad and a thousand miles from the Buenos Aires market. Obviously they can give no immediate relief, and there may be some doubt as to what part they can play in the future; but the new developments concerning oil and coal completely alter the aspect of future fuel problems.

Attempts to develop new trade relations to replace the old have been carried on in most cases in conjunction with neighboring republics and with the United States. The latter, of course, has been the most promising field, for, with all the near-by countries more or less alike in their stagnation of industry and reduction in purchasing power, the opportunities within the continent have been relatively poor. As a result of this enforced relationship there has been a great increase in the trade between the United States and South America; but, during the first year and a half at least, the only increase was in the shipments from South America to the United States. Thus in 1913 the exports from the United States to South America totaled \$146,000,000; in 1915 the amount was \$1,000,000 less. On the other hand, imports to the United States from South America, about \$198,000,000 in 1913, had risen

to more than \$322,000,000 in 1915. Those figures also mean that, with export trade from South America nearly stationary, the share taken by the United States increased from 17 per cent to about 28 per cent of the total. Similarly, with a greatly reduced import trade, the fact that the purchases from the United States did not shrink indicates a more important position for goods from the United States, as shown by the rise from about 15 per cent in 1913 to nearly 28 per cent of imports in 1915. Of course no one knows whether these relations will persist, but it seems unlikely that they can continue without much change.

The most important aspects of efforts toward recovery appear in the practice of rigid economy and the endeavors to increase production. Imports declined, at first through necessity, to half their former value, but, as the crisis has passed, the tendency has continued to buy as little as would keep the countries going. In fact, buying which might well have been done, so far as general finances were concerned, has been put off because of the feeling that peace will be followed by a readjustment of prices, offering chances to purchase on a much more favorable basis. Economy has been the chief cause of the unprecedented excess of exports over imports, and, as inevitably would follow from this condition, the financial position of most of the communities has been materially strengthened. As a matter of fact, most of the republics now probably are on a stronger financial footing than when the war began.

From the low level in the early part of 1915, there has been some upward movement in production and export trade during 1916. Opportunities, of course, have been best for those countries which have interests permitting something like the war-order situation in the United States. Argentina, for example, had the greatest grain crops in its history in 1915, with higher prices than before; as a result, export values set a new record. Unfortunately, however, the 1916 crops were very badly damaged by an unfavorable season, so that the exportable surplus is very small. High prices and unusual demands for meat, hides, and wool have helped Argentina and Uruguay especially, while even Brazil has appeared as a meat exporter. The state of the copper market has helped Peru and Chile, while the latter has been enjoying war orders for nitrate

(to be used in explosives) which have lifted that industry above its level of 1913, with better prices for the product than those averaged during the last ten years.

Another year of this improvement ought to restore industries generally to about the level prevailing before the war, which means that the return of peace should find most sections about as well off as they were prior to July, 1914. If this proves to be the case, then the sum-total of effects of the war probably will be more desirable than otherwise. Several things point to this conclusion. For example, most of the republics needed to be shown their follies and weaknesses. The war crisis did this most thoroughly, and if no other result were to come from it, it is enough that the countries have been taught to be more careful of expenditures. Reckless mortgaging of the future probably is a thing of the past, and "pay as you go" will be a more popular policy. Then, too, all booms in the continent have been completely deflated. There is hardly a vestige of any of them left, and it seems unlikely that the war can develop new ones. In fact, South American republics least of all neutrals need to fear a slump after peace is restored, for little or nothing has been built on the war, and what they already have been through has shaken out most of the false work.

Finally, there has been continent-wide awakening to new interests, a forcing of attention to development of vast latent possibilities, previously passed by, because money had been coming so easily from rubber, coffee, wool, wheat, nitrate, or metals that it seemed hardly worth while to bother with products for purely local consumption or of less obvious marketability. The idea of Argentina buying eggs from France may seem ridiculous, but it was quite in keeping with the old philosophy of production. But almost certainly this old order is gone and in Chile, Argentina, and Brazil most notably, and elsewhere in varying degree, industries heretofore unfamiliar or neglected will be encouraged and expanded to add new strength in economic development and to contribute more staple exports on which to build unquestioned prosperity and financial security.

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